ery for the making one man's deferred-payment promise into immediate purchasing power for the promises. This is, in fact, the ultimate significance of the deposit-credit system. But the middlemen in production or in commerce have no devices or adjustments appropriate to the problem. If credit organizations cease to perform their functions and attempt to shoulder the burden off upon other lines of business, these others must in their turn cease to perform their appropriate functions, simply because they cannot perform both their own functions and those of the banks.

All this, however, is merely another way of enforcing the established doctrine that, in times of especial credit pressure, it is the business of the banks to be especially liberal of credit. If, then, the hard and fast reserve limitation interferes, it should forthwith be repealed; if to fulfil their responsibilities the banks must somehow get together for joint action, they should be authorized—or compelled—to undertake the necessary organization; if the custom of depositing reserves with other banks works out in fair weather as a stimulus to speculative activity in reserve centers, and, in bad weather, results in an automatic cancellation of reserve resources, this double counting of reserves should promptly be outlawed. By one device or another the banks should be held to the responsibilities of their function—the supplying at all times, and especially in times of stress, of all that credit, in guarantee of which any applicant is able to offer the adequate security and for which he stands ready to pay the ruling rates of interest.

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## WASHINGTON NOTES

New Bond Issues
Treasury Operations
Currency Reform
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Reciprocity with Germany

During the past month a remarkable financial proposal on the part of the treasury has been projected and carried to a conclusion within an unprecedentedly brief period. In announcing his intention to sell $50,000,000 of Panama bonds and $100,000,000 of 3-per-cent. certificates Secretary Cortelyou on November 18 prac-

tically yielded to the pressure which had been brought to bear upon him as well as upon President Roosevelt from a number of quarters. Many of the suggestions presented to the President and the secretary of the treasury had been wild in the extreme, involving such heresies as the issue of legal-tender notes, despite the manifest lack of legal warrant for such extreme action. The plan finally accepted was the result of compromise with the conflicting views expressed. It was based upon the permission granted by Congress two years ago when it authorized the construction of the Panama Canal by the issue of bonds to an amount corresponding to outlays from the treasury as ordered by Congress, and upon the authority conveyed in a section of the Spanish War legislation whereby the issue of 3-per-cent. one-year treasury notes was ordered, such notes to be used only in case of emergencies requiring speedy relief. The legal flaws in the plan appear in the fact that there was already on hand in the banks more than $210,000,000 nominally available for the uses of the treasury so that money received from the sale of bonds could not be said to be necessary to meet expenditures. On the other hand the Panama account had been drawn down only about $25,000,000 so that the issue of more than that amount of Panama bonds could be justified, if at all, only as an anticipation of future expenditures.

One inducement to issue was the belief that the banks would be willing to pay for them in cash—at all events to a substantial proportion of their face. The treasury had already, just prior to determining upon the issue, had a difficult experience in endeavoring to get from the New York depositories even a small percentage of the public funds then on deposit with them, and had become convinced that in the existing state of public opinion an effort to curtail bank deposits would be unwise. The "free cash balance," representing funds not deposited or covered by liabilities, had become greatly reduced, falling on some days as low as $4,000,000 as contrasted with the $25,000,000 supposed under Secretary Shaw's administration of the department to be the absolute minimum with which the department could conduct business. Even this balance was at times composed of claims and checks still undergoing collection and "available" only in a technical sense. The hope that the department balance could be built up by drawing cash from the banks in payment for bonds and certificates soon was seen to be futile in view of the insistent demands of the banks that they be permitted to

retain the whole amount of their allotments on deposit. To these demands the secretary was upon investigation practically forced to yield, specifying that he would require of prospective purchasers of the certificates only one-fourth in cash, the rest to remain upon deposit with the institution taking the securities; while in the case of the bonds only 10 per cent. in cash would be required, the balance remaining with the bank making the bid. Other than the stimulation to circulation growing out of the new issue, therefore, it was hardly to be expected that there would be important results from the issue and hence the plan has come to failure. The bond issues are discussed in detail elsewhere in this number.

As a result of treasury efforts about $60,000,000 of new national-bank currency will have been issued and some $35,000,000 or $40,000,000 of deposits in banks will have been made since November 1, 1907. This is the final measure of treasury relief; and in order to grant this the department has been obliged to strain every resource. The new notes would have been issued in some small measure, in any event, since the natural growth of the banking system implies some addition to the currency. Further, the fall season invariably brings with it minor additions to the note issues. The addition out of the ordinary has been produced through the action of the treasury in permitting the bank to transfer bonds from the treasurer's office, where they have been deposited as security against public funds, to the comptroller's office, where they are now held behind national-bank notes. About $10,000,000 of the added circulation has been based on the 3-per-cent. certificates. Some small amounts have come from offerings of outside bonds but in the main the securities have been drawn from the treasurer's office.

It is a serious problem for department officers how this large increment in the circulating medium, aggravated as it will be by some further additions, will affect the international currency status of the United States. As already seen, it is scarcely possible that there should fail to be heavy gold exports as soon as lawful money begins to accumulate in bank vaults. That the latter condition will be manifested within a month or two is the teaching of experience with similar panics in the past. In order to guard somewhat against the dangerous consequences possibly resulting from this situation, it has practically been determined by the treasury authorities to require the banks receiving allotments of

Panama bonds to place them with the treasurer behind public deposits, withdrawing the state and municipal issues which they were allowed to place there, and thus restoring in some measure the solidity of the mass of securities held behind public deposits. This will in a measure avert the danger of further undue inflation, but it still leaves in effect such harm as has already been accomplished. Few persons question that there will be a large and steady outflow of gold from the country during the spring, when the dividend periods are fully passed and the time has come for a reflex movement to make itself felt. It is argued that the department will be able, by calling deposits, and thus drawing in some of the redundant currency of the country, to protect the community against this danger. There is grave question whether any such manoeuver, however skilfully prosecuted, will prevent Europe from reclaiming from us the larger part of the gold which has been drawn here by the offer of large rates of interest. A severe business depression would probably drive out in addition a substantial sum of specie over and above our recent borrowings, whatever they may have been.

Congressional progress with currency-reform measures designed to guard against a recurrence of such conditions as have beset the banking community in the recent past has been far slower than was anticipated. President Roosevelt was unreasonably optimistic in his prediction that before the Christmas holidays legislation would have been agreed upon for the permanent relief of the situation, and as time has gone on it has become plainer than ever that such anticipations not only could not be realized, but that possibly no action whatever would be taken. Politically, there has developed the same opposition among currency students in the House and Senate that has always stood in the way of all legislation on the subject. Speaker Cannon has reappointed the old members of the Banking and Currency Committee, the one noteworthy addition being Representative Burton, of Ohio, who has assumed the place formerly occupied by Representative Shartel. Mr. Burton's accession to membership in the committee is notable because he is one of the few carefully educated thinkers on this question now in Congress. Chairman Fowler, however, in taking up the practical matter of drafting a bill for currency reform has appointed a subcommittee of five members, which does not include Mr. Burton.

Already two parties of some strength exist in the committee. Moreover, Senator Aldrich, at the other end of the Capitol, has adopted a point of view quite different from any that exists in the House. Mr. Aldrich has not as yet committed himself on the subject of the pending legislation further than to discredit such work as may be done in the lower chamber, but there is reason to think that, as usual, currency legislation will be shaped in the Senate. Unfortunately only the narrowest ideas appear to prevail in the upper chamber, the most widely accepted notion being at present that of an "emergency currency based upon state and municipal bonds." By this is meant merely the addition of state and municipal bonds of specified kinds to the government securities which alone are legally available as a basis for national-bank notes. This plan has been urged for several months by United States Treasurer Treat, and is apparently the plan to which the President has committed himself in his somewhat vague expressions in the annual message.

A multitude of proposed measures on currency and banking have been introduced in Congress since the opening of the session but most of them are manifestly impracticable. The plans that have been offered may be grouped around a few central ideas. One set of bills provides for the issue of currency in emergencies upon terms substantially the same as those now conditioning the issue of national-bank notes, but with the addition of other classes and kinds of securities as a possible foundation for the currency. A second set of measures presents the familiar plans for the issue of notes on an asset-secured basis, either with or without the requirement that banks which take out notes in this manner shall first issue a certain proportion of national notes based on national bonds. The latter plan was proposed under the Fowler bill of last year and was incorporated into the suggestions of the New York Chamber of Commerce and American Bankers' Association. A third set of measures proposes the creation of a central national bank whose stock should be held by the national banks of the present system and by them alone. This bank, according to most of the current proposals, would be vested with the power to issue, either in emergencies or regularly, notes based upon specially segregated assets of the smaller banks. A fourth set of schemes is of the inflation variety, and would leave the relief of the market wholly in the hands of the administration by authorizing the

Treasury Department to print and pay out legal tender notes upon occasion, depositing them in the banks and thus making them available for currency uses. A variant of this scheme is found in certain proposals which urge the direct issue of notes to private individuals upon a request for them accompanied by an offer of national, state, or municipal bonds. As an alternative plan, there is put forward the original idea suggested by Secretary Shaw—that of retaining in the treasury a large reserve fund of possibly $100,000,000, to be deposited at the discretion of the secretary of the treasury in the banks for the purpose of relieving stringent conditions in the money market. Improvement of the present deposit system is recommended in numerous more or less carefully drawn bills which propose the abolition of the bond security requirements, the legalization of the payment of government obligations by means of checks rather than by actual cash, and the charging of interest upon deposits. It is as yet too early to say which of these plans will assume a prominence sufficient to make them factors in the legislative situation. It is unlikely, however, that the central-bank plan will receive serious attention, and there is not much probability of so vital a modification of the present independent treasury system as would be implied in the order to pay claims in checks rather than in cash.

One of the most important events of the past month from the standpoint of commercial development has been the formation of a National Council of Commerce as the result of the efforts of Secretary Straus in calling together at Washington on December 5 representatives of thirty-four of the leading commercial bodies of the United States. The council is intended to do for the government and business public of this country somewhat the service which is performed in Great Britain by the Associated Chambers of Commerce acting in conjunction with the British Board of Trade. The precise purposes of the new organization may be summarized as follows: (1) to keep the department informed of the needs and desires of the business world so far as they may be formulated by responsible commercial and industrial organizations. These organizations are to represent manufacture, internal trade, and foreign commerce, both export and import, and possibly transportation; (2) to keep the business community informed regarding the work of the department, its plans, methods, and results.

The organization is to consist of two closely connected yet distinct bodies, viz.: (1) a National Council of Commerce, which shall appoint (2) an Advisory Committee. Each body to elect its own officers and to establish its own rules of procedure.

Under this plan, the National Council of Commerce is to be composed of one representative from the leading commercial and industrial organizations representing the principal lines of commerce and manufacture in every part of the country. The National Council is to meet in Washington once a year, at a time to be fixed by the Advisory Committee, but special meetings of the council may be called by the committee. The council is to hear and act on the reports of the Advisory Committee; discuss and act on measures proposed by the delegates from the various organizations represented; and formulate, for action by its constituent bodies, or by the Advisory Committee, such suggestions for the promotion of the commerce of the United States as it may agree upon.

The Advisory Committee consists of fifteen members, representing the leading commercial and industrial organizations of the country, selected by the National Council. Its meetings are to be attended by such officers of the department as the secretary of commerce and labor may designate, these officials to have a voice in the deliberations, but no vote. It is to meet regularly, exercising the following functions: (1) to receive reports and communications from commercial and other bodies, as to their needs in the promotion of commerce; (2) to receive from the department information of interest to the business world, which cannot be directly disseminated through the publications of the departmental bureaus; (3) to consider with the department officials and act upon the topics suggested by the reports mentioned under 1 and 2; (4) to furnish the secretary of commerce and labor with authentic information as to the needs and conditions of different industries whenever commercial treaties are under consideration; (5) to suggest special investigations abroad by the agents of the department; (6) to act as an intermediary between the departments and the commercial and trade bodies in arranging for the representation of American products at international expositions; (7) to confer with other departments of the government with a view to promoting the trade interests of the country; (8) to confer with the secretary of commerce and labor regarding legislation which shall have been approved by the National Council and is

necessary to promote foreign and domestic commerce or to adequately equip the department for such work.

Coincident with the assembling of Congress has begun a warfare upon the German tariff agreement negotiated and put into effect by executive order about six months ago. The actual commercial effect of the agreement thus far cannot be accurately stated since the time of its existence has not been long enough to permit any analysis of the course of trade. Much is being made by opponents of the fact that there has been in these months a decided increase in the volume of business passing between the two countries. This increase is in part due to the familiar practice of holding back consignments of goods destined for shipment whenever it appears that more favorable trade arrangements are likely to go into effect within a reasonable time. A careful campaign among members of Congress has been carried on by Wilbur F. Wakeman, secretary of the American Protective Tariff League, with the purpose of stirring up feeling antagonistic to the agreement as now in operation. The campaign has revealed that the extreme protectionists intend to lay chief stress upon the section of the agreement which provides for the acceptance of export prices as the true valuation of goods for customs purposes, whenever the goods in question are of a sort manufactured chiefly for export and as such have no fixed home market value. This is practically the only element in the agreement which is open to question on the ground of its legality, the other items in it being details of executive management purely. This particular element in the agreement is, however, the one which has been most carefully considered, having been passed upon by both Secretary Root and Attorney-General Bonaparte. The plan of the protective interests is to introduce a series of resolutions calling upon the administration for information as to the transactions leading to the agreement and thus if possible to drive it into some admissions with regard to the influence of the new system. The first resolution of the series arranged by Mr. Wakeman was proposed by Senator Gallinger, and passed the Senate on December 10. It merely asks for a statement by the executive of the imports and exports passing between Germany and the United States during the first three months of the current fiscal year. These figures are to be presented as exhibited by consular invoices.